

FESTIVAL HYDRO INC. STRATEGIC OPTIONS ANALYSIS

June 24, 2014

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TOP 7 2013



Current Financial Information

The book value (Financial Statements) of the City's Investment in Festival Hydro Inc. (FHI) is approximately:

Investment	\$21,600,000
Demand Loan	\$15,600,000
Total	\$37,200,000

Part of Deloitte's analysis included performing a fair market valuation (FMV) of FHI which is substantially different than the current book value, the FMV is being used for the City's financial analysis of the options

Current Financial Information

Annual revenue received by the City from FHI:

Dividends	\$1,250,000
Interest on Demand Loan	\$1,131,000
Total	\$2,381,000

The impact on the general tax levy is approx. **5.1%**, the impact on the residential tax levy is approx. **5.5%**

Current Financial Information

Other Financial transactions between the City of Stratford and FHI include:

➤ Water Billing provided by FHI	\$425,000
➤ Garage/office Space	\$30,000
➤ Street Light Maintenance	\$180,000
➤ Total City Hydro Billings	\$2,000,000

THE ABOVE NUMBERS ARE ANNUAL ESTIMATES BASED ON PRIOR YEARS COSTS

OPTIONS FOR SALE PROCEEDS

DEBT REPAYMENT

- Current Principal & Interest payments are approx. **\$8.5 M**, approx. **\$5.0 M** from tax levy
- Interest rates range from 2.47% - 4.96%
- Terms range from 15 years to 25 years
- Most debt is lock in – therefore, penalties incurred to pay off early
- Cash Flow requirement for debt repayment is decreasing annually as principal is paid

OPTIONS FOR SALE PROCEEDS

DEBT REPAYMENT

An opportunity to repay our highest interest bearing debts, along with our current unfinanced (unrestricted) debt would have the following impact:

Cash requirement (incl Penalties)	\$29,700,000
Reduction in P&I (2014)	\$ 2,670,000
Reduction in P&I (2018)	\$ 2,500,000
Reduction in P&I (2024)	\$ 1,650,000

OPTIONS FOR SALE PROCEEDS

INVESTING THE PROCEEDS

- Current interest rates are low
- Municipalities are restricted to low risk investment instruments

In order to earn the same income as the City is earning from FHI, the following principal amounts would be required:

At 2%	\$119,050,000
At 3%	\$ 82,666,666
At 5%	\$ 47,620,000
At 7%	\$ 34,014,286

OPTIONS FOR SALE PROCEEDS

INVESTING IN INFRASTRUCTURE

- Every Municipality has some sort of infrastructure deficit or infrastructure needs
- Increasing reserves today will reduce the burden of infrastructure renewal in the future
- Some of the larger unfunded projects discussed during Council's Strategic Priorities session were:

Market Square

Police Station

Social Housing

Sanitary Upgrades

Bus Depot

Library

Storm Sewers

Road Rebuilds

Concluding Remarks



History of Festival Hydro

- Retain Control
- Build a larger utility
- Kitchener Experience – Gas Company

Festival Hydro

Administration
Building



Political Environment

Will the Ontario government mandate consolidation?



Three Options

Selling Festival
Hydro

~~Merging Festival Hydro~~

Retaining Festival
Hydro



Selling Festival Hydro

- Pay down debt
- Money can be used for:
 - Taxes
 - Infrastructure
 - Projects



Retaining Festival Hydro

- Money over longer time
- Source of revenue indefinitely
- Future efficiencies

Festival Hydro

Next Steps

- Ask questions
- Hear presentations
- Report to Council
- Consider options
- Decide



Thank you

